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USDOC FOR ITA/MAC/OSA/LDROKER/ASTERN/KRUDD  
DEPT OF ENERGY FOR A/S KHARBERT, TCUTLER, CZAMUDA, RLUHAR  
DEPT PASS TO USTR CLILIENTFELD/AADLER  
DEPT PASS TO TREASURY FOR OFFICE OF SOUTH ASIA ABAUKOL  
TREASURY PASS TO FRB SAN FRANCISCO/TERESA CURRAN  
STATE FOR SCA/INS AND EB/TRA JEFFREY HORWITZ AND TOM ENGLE  
USDA PASS FAS/OCRA/RADLER/BEAN/CARVER/RIKER  
EEB/CIP DAS GROSS, FSAED, MSELINGER  
USTR FOR CATHERINE HINCKLEY

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SUBJECT: NEW DELHI WEEKLY ECON OFFICE HIGHLIGHTS FOR THE WEEK OF MAY  
26-30, 2008

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11. (U) Below is a compilation of Economic highlights from Embassy  
New Delhi for the week of May 26-30, 2008, including the following  
items:

- INDIAN GOVERNMENT RELAXES OVERSEAS BORROWING NORMS
- RETAIL REPORT DRAWS VARIED RESPONSES
- BANGALORE AIRPORT OPENS
- SLIGHT PROGRESS ON INDO-EU FTA
- AHLUWALIA IN RACE FOR THE POST OF RBI GOVERNOR
- FINANCE MINISTER PRESENTS CSR AWARDS
- REPORT PROJECTS 528 MILLION CELLULAR SUBSCRIBERS BY 2010
- INDIA BALKS OVER OFFER OF LIECHTENSTEIN BANK DATA
- BANGALORE HOTEL ROOM RATES DECLINE

INDIAN GOVERNMENT RELAXES OVERSEAS BORROWING NORMS

12. (U) The Finance Ministry at a May 29 high-level committee meeting  
on External Commercial Borrowings (ECBs), chaired by Finance  
Secretary Subbarao and attended by other Finance Ministry and  
Reserve Bank of India (RBI) officials, agreed to ease the overseas  
borrowing norms for companies. The liberalized guidelines will allow  
infrastructure companies to bring into India \$100 million in foreign  
financing which should boost investment in airports, ports, and the  
power sector (companies still face no limit on foreign borrowing  
that is used for investment abroad). According to the 11th five  
year plan (2007-12), India's infrastructure sector requires \$500  
billion worth of investment, of which \$30 billion is expected to  
come through the ECB route. For other corporates, the ceiling on  
ECBs to fund rupee expenditure has been raised to \$50 million from  
the current \$20 million. Under the approval route, a borrower  
requires prior approval of RBI to borrow for permissible end-uses.  
The government has also increased the interest rate ceiling over six

month London Interbank Offer Rate (LIBOR), making it easier for small and medium firms to access the foreign debt market.

13. (U) The government has also enhanced the investment limits for Foreign Institutional Investors (FIIs-registered with the Securities and Exchange Board of India) in government securities to \$5 billion from the current \$3.2 billion and doubled the ownership in corporate bonds to \$3 billion in an attempt to strengthen the debt market. The relaxation in the ECB rules and the easing of FII rules will help bring in higher capital flows, which have declined over the past eight months, both because of ECB restrictions imposed in August 2007 as well as more cautious global capital market sentiment towards emerging markets - especially those that, like India, have seen strong returns and become more richly valued in the past few years.

#### RETAIL REPORT DRAWS VARIED RESPONSES

14. (SBU) The Indian Council for Research on International Economic Relations' (ICRIER) report on the impact of organized retail has finally been released, approximately seven months after it was originally due. The report's early findings were laid out by business daily The Mint in December 2007, and the findings of the final report are much the same. [Comment: A source at ICRIER told Econoff in November 2007 that the report had been completed on time and was ready for release in October 2007 but that the Ministry of Commerce & Industry had asked ICRIER to hold off on its release.]

15. (U) The report indicates that while organized retail will definitely cut into the business of mom-and-pop shops in the near term, the impact on profits for small traders will diminish over time. The report further projects that even with dramatic growth in the organized sector, unorganized retailers will retain 84 percent of the market share even in 2013, down from 95 to 97 percent today. The report's authors also dubbed unorganized retail "a major

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bottleneck to raising productivity in both agriculture and industry" and encouraged the GOI to reduce licensing requirements to encourage the growth of organized retail. Media responses have been varied, with some sources hailing ICRIER's advice as rational and progressive, while others cite it as further proof of the need to protect small traders by denying entry to organized retailers.

#### BANGALORE AIRPORT OPENS

16. (U) Bangalore International Airport Limited (BIAL) began operations at midnight between May 23 and May 24 with a low key inaugural function. Bangalore High Court dismissed several public interest lawsuits brought by prominent Bangalore citizens such as Kiran Mazumdar Shaw, CEO of Biocon, and Mohandas Pai, Director of Infosys, to keep the old Hindustan Aeronautics Limited airport operational. Vinay Rao, Vice President, Infosys, told post it takes over two hours to reach the airport from the company headquarters requiring the use of a helicopter to cut travel times. Apart from high costs, the levy of a user development fee of a little under \$20 caused considerable heart burn; BIAL management decided to waive the fee for three months for domestic travelers following protests.

17. (U) Manish Kaushal, Manager of Aviation Contracts, told Post that vendors were still in the process of setting up operations. He expected airport operations to settle down in two weeks. Sebastian Krugmann, Assistant Manager, Global Ground, providers of ground support services, told post that some of the workers were getting used to the equipment and procedures. He said complaints of delayed baggage arrival and fueling was normal in the first few days of any airport. He pointed to the problems at Heathrow's new T5 terminal as an example.

#### SLIGHT PROGRESS ON INDO-EU FTA

18. (SBU) European Commission Trade Counselor Bermejo has reported

some progress in Indo-EU FTA talks. Two weeks ago the GOI submitted it list, originally promised for November 2007, of the 90 percent of European goods whose import tariffs will be zeroed out by India in the seven years following the signing of an FTA. The next round of negotiations is tentatively scheduled for the second week of July, at which time the GOI may propose the time sequencing that they are seeking for lowering tariffs.

#### AHLUWALIA IN RACE FOR THE POST OF RBI GOVERNOR

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¶9. (U) Media reported that according to a Ministry of Finance official, Montek Singh Ahluwalia, Deputy Chairman of the Planning Commission may be a strong contender for the post of Governor of the Reserve Bank of India (RBI). The current Governor Reddy's term comes to an end in September 2008. Other potential candidates being considered are Rakesh Mohan, currently RBI's Deputy Governor, Finance Secretary Subba Rao and Adarsh Kishore, India's Executive Director at the IMF in Washington, with the final decision taken by the Prime Minister and the Finance Minister. If the BJP-led government comes to power (elections are due next May) Ahluwalia may lose his present job at the Planning Commission as he is a political appointee of the present UPA government. RBI governors have a fixed term of at least three years regardless of change in government; in the case of current Governor Y.B. Reddy, the term was extended to five years.

¶10. (U) Ahluwalia is extremely close to PM Singh. He served as Singh's secretary in the Department of Economic Affairs, Ministry of Finance, and later as the Finance Secretary. He was instrumental in

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pushing through the reforms process initiated in 1991 by then Finance Minister Singh. As Deputy Chairman of India's Planning Commission, he is also the core convener of the US-India Economic Dialogue. Importantly, he has recently been a strong voice for financial market reform, including endorsing the Rajan Committee recommendations. Mohan came to RBI as Deputy Governor in late 2002 but, before finishing his three-year term, transferred to the position of Secretary of the Department of Economic Affairs at the Finance Ministry, only to come back to the central bank after eight months. He is considered a good economist and is very familiar with the functioning of the central bank. The biggest challenge for the new governor will be controlling inflation, currently running at 7.8%, above the RBI's target of 5%. GDP growth is also slowing, following tightening of monetary policy through a series of hikes of banks' cash reserve ratio.

¶11. (SBU) Numerous contacts in private sector financial firms, foreign and domestic, academics and the press have noted the need for fresh blood at RBI to enable India's financial sector reform process to move faster. RBI is widely viewed as a key obstacle in almost every facet of financial market development. From a policy perspective, Rakesh Mohan is considered to be an ideological heir to Y.B. Reddy. Most analysts and market participants in Mumbai feel that Mohan would continue the slow, cautious path of Reddy. The Economic Research team at Goldman Sachs India believes that a dark horse candidate may yet be the final choice of the government, much like C.B. Bhavé was chosen to head the Securities and Exchange Board of India over several other more prominent candidates. In this case, the Goldman Sachs analysts told Congenoffs that Kishore was still in the running.

#### FINANCE MINISTER PRESENTS CSR AWARDS

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¶12. (U) Finance Minister P. Chidambaram reinforced the importance of Corporate Social Responsibility (CSR) while presenting awards to six companies in a FICCI organized event in mid-May. Both public and private sector companies were amongst the awardees. He mentioned that inclusive growth could only be sustained through 'social conscience' which will lead to social responsibility. He urged FICCI to publicize the Prime Minister's social charter for companies to bring about the genuine growth. Industry representatives stated that their involvement in finding solutions to social issues helped their own businesses in the long run. They agreed that CSR is

gradually morphing from a mere philosophy to a strong business case for Indian industry and that many companies are committed to CSR.

#### REPORT PROJECTS 528 MILLION TELECOM SUBSCRIBERS BY 2010

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¶13. (U) A recent joint report released by business chamber ASSOCHAM and PricewaterhouseCoopers (PwC) indicates that India will continue to be the fastest-growing telecom market in the world. The market is expected to comprise 528 million subscribers in 2010, of which 480 million will be mobile and 48 million fixed-line. This compares to the current figure of 310 million total customers and implies a compound annual growth rate of 28%. Revenues from mobile services are expected to increase to \$35 billion by 2010 versus \$22 billion in FY 2007-08. The Indian telecom market enjoys the advantage of being a predominantly pre-paid driven market, with the lowest rates in the world, some of the world's cheapest mobile handsets, and intense competition driven by the a large number of players. The report adds that constant innovation in pricing of services and handsets were the two main factors contributing to growth. Further, while urban markets are fast reaching saturation, operators are yet to work out successful business models to target rural India, as the cost of setting up mobile network in such places is high.

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#### INDIA BALKS OVER OFFER OF LIECHTENSTEIN BANK DATA

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¶14. (U) According to The Times of India, the German government has offered to share a list of account holders at Liechtenstein's LTG Bank with the GOI, but the GOI has not yet accepted the offer. Liechtenstein has long served as a tax haven for wealthy Indians, among many others, and some fear that its banks could also be used for terrorist financing or other illicit purposes. The Times quotes a representative of Transparency International as saying, "It is alleged that this money belongs to rich and powerful politicians, industrialists and stock brokers, and that is [the reason for] the reluctance on the part of [the] government of India."

#### BANGALORE HOTEL ROOM RATES DECLINE

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¶15. (U) Hotel room rates softened over the last two months following a drop in the number of business travelers to Bangalore. M.P. Purushothaman, President, South India Hotels and Restaurants Association and Empee Hotels, told post that occupancy in Bangalore had dropped from 85 percent to 78 percent over the last six months; consequently four and three star hotels dropped rates between 5 and 10 percent. Amala Pothan, Sales Director at Taj Hotels, told post that the group has not changed rates in Bangalore yet but did not rule out cuts with an estimated 2000 five star rooms coming online in the next two years.

¶16. (U) Visit New Delhi's Classified Website:  
<http://www.state.sgov/p/sa/newdelhi>

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